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ABSTRACT

This audit report addresses the compliance of the Clinical Practice Management Plan at the Health Science Center (HSC) at Syracuse with policies established by the State University of New York (SUNY) Board of Trustees. An executive summary highlights the scope of the audit, audit observations and conclusions, and comments of SUNY officials. An introductory section gives an explanation of the audit scope, objectives, and methodology. The report then examines the spending practices of a group (of six faculty members) in which potentially illegal spending practices were found. Questionable practices were identified in entertainment costs, travel costs, purchase of gifts, personal loans, related party transactions, and purchases that appear to have yielded a personal gain. Questionable practices were also identified for six remaining groups (totaling 140 faculty members) in which, however, no patterns of expenditures resulting in personal gain were found. Overall, the report concludes that serious internal control weaknesses related to the expenditure of clinical practice funds by the various medical service groups were found. It notes the lack of guidelines for controlling the amount or type of spending by the groups with each group functioning in an autonomous manner and lack oversight. Appendices list major contributors to the report and the comments of SUNY officials. (DB)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 93-S-54

Dr. Joseph C. Burke
Interim Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Dear Dr. Burke:

The following is our report on the Clinical Practice Management Plan of the Health Science Center at Syracuse.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law.

This report was prepared under the direction of Frank J. Houston, Audit Director. Major contributors are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

August 16, 1994

Executive Summary

State University of New York
Health Science Center at Syracuse
Clinical Practice Management Plan

Scope of Audit

The Health Science Center at Syracuse (HSC) has a clinical practice management plan (Plan), whereby medical doctors on the faculty of HSC's College of Medicine engage in the practice of clinical medicine. The Plan consists of 22 separate medical service groups, primarily established by department, within the College of Medicine. There is a Governing Board, made up of members from each of the 22 groups, to coordinate the activities of the Plan. Although the groups are organized as individual partnerships, they function under the auspices of the HSC. The doctors within these groups receive salaries from the State in addition to income generated by their clinical practices. During 1991, the 22 groups in the Plan generated $57 million in revenue

Article XVI of the SUNY Board of Trustees Policies (Policies) regulates the use of funds generated by clinical practices. The Policies stipulate: before any other obligations are met, 5 percent of the gross receipts generated from the clinical practices are to be placed into a fund administered by the Chief Administrative Officer of the HSC so that they may be used for the general benefit of the College of Medicine; group operating expenses must meet current Federal IRS guidelines as deductible expenses; and any remaining funds generated from the clinical practices after compensation of the doctors and other expenses of the practice shall be turned over to the College of Medicine and used for its benefit.

Our audit addressed the following question regarding the Plan at HSC:

- Is the Plan at HSC being administered in compliance with SUNY Board of Trustees Policies?

Audit Observations and Conclusions

We identified serious internal control weaknesses related to the expenditure of clinical practice funds by various medical service groups. We found that neither the HSC nor the Governing Board of the Plan has issued any supplemental guidelines for controlling the amount or type of spending by the medical service groups. Each group functions in an autonomous manner with respect to its spending practices without sufficient oversight by either HSC or the Governing Board. As a consequence, there were numerous instances of questionable spending practices in several groups. In one group, we found potentially illegal spending practices. We have referred our findings related to this group to appropriate SUNY officials and they,

in turn, have referred the matter to the State Attorney General for follow-up.

We reviewed samples of expenditure transactions at 7 of the 22 medical service groups for one or more calendar years 1990 through 1992. (For purposes of our report, we refer to these groups as Groups 1 through 7.) Our review of expenditures incurred by Group 1 identified a substantial number of expenditures which we consider questionable both in terms of IRS criteria and in terms of reasonableness and propriety. The questionable expenses we identified for Group 1 relate to entertainment, travel, gifts, personal loans, and related party transactions. The body of our report provides details regarding these expenses. Many of these expenditures appear to have resulted in personal gain to several doctors in Group 1. For example, we identified $8,237 in expenses for house cleaning and landscaping for a Group official's residence and summer home. We noted that the greatest number of personal gain expenditures were made by the same person who had been previously advised in 1989 by the HSC that similar expenditures were not a proper use of Group funds. In fact, at that time, HSC officials requested and received restitution from that person for those expenditures. (see pp. 5-13)

For the other six groups whose expenses we reviewed, we found questionable spending practices that in some cases were similar to those we identified in Group 1. However, unlike Group 1, we did not identify patterns of expenditures that appear to have resulted in personal gain to individuals. (see pp. 13-20)

The questionable expenses we found demonstrate the need for HSC, in conjunction with SUNY Central Administration, to formulate detailed guidelines concerning the use of Plan funds. Furthermore, the Plan's Governing Board should develop expenditure controls to ensure compliance with promulgated guidelines. For example, the Governing Board should expand the independent review of transactions by HSC's internal audit department. In some cases where we have identified questionable expenses, HSC should investigate the matters further and, where appropriate, seek restitution.

As part of our audit, we also reviewed HSC compliance with SUNY Policies regarding Plan membership and the allocation of 5 percent of Plan income for the general benefit of the College of Medicine. Our audit found only minor problems in these areas. (see p. 2)

Comments of SUNY Officials

SUNY officials generally agree with our recommendations and indicate steps are being taken to implement them. HSC will employ efforts to obtain restitution for those expenditures which resulted in personal gain. Further, the Interim Chancellor has directed the development of a system-wide process for proper oversight, reporting and accountability of all Plans.

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Introduction

Background

The Health Science Center at Syracuse (HSC) consists of four colleges: the colleges of Medicine, Nursing, Health Related Professions, and Graduate Studies. Total enrollment in the four colleges is approximately 1,100. The HSC also operates a 350 bed teaching hospital.

In addition to their academic and research responsibilities, medical doctors on the faculty of the College of Medicine engage in the practice of clinical medicine. This enables them both to hone their medical skills, which ultimately benefits the College of Medicine, and to enhance their income by treating patients. Approximately 500 members of the medical professional faculty receive compensation from SUNY and from their clinical practices.

Article XVI of the SUNY Board of Trustees Policies (Policies) provides guidelines and restrictions on the conduct of clinical practice by faculty, including the requirement that they must practice under the auspices of a Clinical Practice Management Plan. The Policies also place limitations on the amount of income that the doctors may receive. This is meant to ensure that academic and research responsibilities are not subordinated to the more lucrative clinical practice activities. The use of funds generated by these clinical practices is regulated by the Policies. Among other things, the Policies stipulate:

- Before any other obligations are met, 5 percent of the gross receipts generated from the clinical practices are to be placed into a fund administered by the Chief Administrative Officer of the HSC so that they may be used for the general benefit of the College of Medicine.

- Group operating expenses must meet current Federal IRS guidelines as deductible expenses. Basically this means that the expenses must be ordinary and necessary to the conduct of the business.

- Any remaining funds generated from the clinical practices after compensation of the doctors and other expenses of the practice shall be turned over to the College of Medicine and used for its benefit.

At the College of Medicine, there is one Clinical Practice Management Plan (Plan) consisting of 22 separate medical service groups, primarily established by department. During 1991, the 22 groups generated $57 million in revenue. There is a Governing Board, made up of members from each of the 22 groups, which coordinates the activities of the Plan. Although the groups are organized as individual partnerships, they function under the

auspices of the HSC. The doctors within these groups receive salaries from the State. The State also owns all of the fixed assets of the groups, including medical equipment and furniture.

Audit Scope, Objectives and Methodology

Our audit determined whether the Plan at HSC was being administered in compliance with SUNY Board of Trustees Policies for the period from January 1, 1990 through March 31, 1993. The primary objective of this audit was to evaluate the reasonableness and propriety of expenditures made by the medical service groups. To accomplish this objective, we reviewed applicable policies, procedures, rules and regulations; interviewed HSC and medical service group officials; and examined financial reports and the supporting workpapers of outside auditors. We also reviewed samples of expenditure transactions at 7 of the 22 medical service groups for one or more calendar years 1990 through 1992. For purposes of our report, we refer to these groups as Groups 1 through 7.

As part of our audit, we also reviewed HSC compliance with SUNY Policies regarding Plan membership and the allocation of 5 percent of Plan income for the general benefit of the College of Medicine. Our audit found only minor problems in these areas, and we have separately communicated our findings to the HSC. This report does not comment further on these matters.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the HSC which are included within the audit scope. Further, these standards require that we understand the HSC's internal control structure and its compliance with those laws, rules and regulations that are relevant to HSC operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest possibility for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and leaders of the legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Plan Spending Practices

Our audit identified serious internal control weaknesses related to the expenditure of clinical practice funds by the medical service groups. We found that neither the HSC nor the Governing Board of the Plan has issued any supplemental guidelines for controlling the amount or type of spending by the medical service groups. As a consequence, there were numerous instances of questionable spending practices in several of the groups, as detailed throughout our report.

In one group, (referred to as Group 1), we found potentially illegal spending practices. We have referred our findings related to this group to appropriate SUNY officials and they, in turn, have referred the matter to the State Attorney General for follow-up.

Spending Practices in Group 1

Group 1 consists of six faculty members and generates clinical practice revenue of approximately $2 million per year. We reviewed the appropriateness of expenses incurred by this Group.

The Policies require that group operating expenses meet current Federal IRS guidelines as deductible expenses. Such guidelines state that the expenses must be ordinary and necessary to the conduct of the business. Given the requirement that any surplus funds are to be turned over to benefit the College of Medicine, we also determined whether clinical practices were administered in a cost effective and business-like manner so as to reasonably maximize the funds available for transfer.

Our review of expenditures incurred by Group 1 identified a substantial number of expenditures which we consider questionable both in terms of IRS criteria and in terms of reasonableness and propriety. We also found a serious lack of control over expenditures in that all group expenditures are approved by one individual with no oversight by either the HSC or the Plan's Governing Board.

Many of these expenditures appear to have resulted in personal gain to several doctors in Group 1. We noted that one Group official had the greatest number of personal gain expenditures. We are particularly concerned with these expenditures because this person had been previously advised in 1989 by the HSC that similar expenditures were not a proper use of Group funds. In fact, at that time, HSC officials requested and received restitution from that person for those expenditures.

The following is a summary of the questionable expenses we identified for Group 1. These questionable expenses relate to entertainment, travel, gifts, personal loans, and related party transactions.

Entertainment Costs

In the three years that we reviewed (1990-1992), we found that Group 1 spent approximately $92,000 on entertainment. Most of the expenditures ($74,700) were for nine Group-sponsored social events, three held each year. This section discusses the nature of these expenditures.

We acknowledge that there are occasions where an appropriate business purpose is served by entertainment. However, with respect to entertainment expenditures in Group I, we question the extent of entertaining and whether the expenditures serve an appropriate and cost-effective use of Plan funds.

Group Official's Birthday Party

In 1990, a Group official's 60th birthday was celebrated with a party paid for through Group funds. Invitations were specially printed and a string quartet was hired. Arrangements were made with a local restaurant for food and an open bar for 125 people. In addition, groceries and liquors were purchased, and a $100 tip was given to the string quartet.

Two birthday presents for the official were purchased with $1,500 in Group funds—an exercise bike and a framed Japanese silk. In all, this birthday celebration cost the Group $8,789.

Summer Picnic

In both 1991 and 1992, a picnic was held at a Group official's summer residence. In 1991, costs associated with this event amounted to more than $8,800 and, in 1992, nearly $11,000.

Preparations for the picnics were elaborate. Almost $1,500 in landscaping was done at the official's summer residence in 1991 and another $1,100 in the following year. Windows in his residence were professionally washed each year. A caterer from Maine was hired for the summer picnic with lobster dinners for 100 guests ordered in 1991 and for 130 in 1992. The caterer stayed overnight at a local motel at Group expense. Party supplies, appliances and utensils were purchased. Tents, tables, chairs, linens, and portable toilets were rented. A vehicle and driver were hired to shuttle guests between the local golf course and the Group official's residence. Large quantities of groceries and liquors were also purchased.

Residents' Graduation Party

Each year the Group celebrates the graduation of its residents with a large party. The party is either held at a restaurant or catered at a Group official's home. If the party is held at a restaurant, the guests are invited back to the official's home for an informal reception afterwards. Although all members of the Group's staff are invited to attend, office staff are required to pay for this function, while the professional staff may attend without cost.

As with the picnic, the Group paid for window washing and extensive landscaping at the official's home (his main residence). Groceries, liquors and various other items were purchased in support of these events, as detailed in the following list.

Expense	1990	1991	1992
House Cleaning	$ 90		$ 100
Window Washing	397	$ 425	425
Landscaping		1,583	1,138
Groceries	1,072	578	898
Liquor	1,330	1,662	1,901
Flowers	449		
Restaurant/Catering	3,228	3,371	2,401
Videotaping			253
Awards			191
Miscellaneous	52		117
Less: Cash from Paying Guests	(900)	(1,460)	(1,270)
	$5,718	**$6,159**	**$6,154**

Christmas Festivities

Until 1992, the Group held two parties each year at Christmas time, one for its professional staff and another for all staff. One was typically held in a restaurant (with an informal reception at a Group official's residence afterwards), while the other was a catered event at the official's residence. In 1992, the Group held only one party for all its staff.

The following list summarizes the Group's Christmas entertainment expenses.

Expense	1990	1991	1992
House Cleaning	$ 50	$ 175	$ 150
Carpet Cleaning			553
Christmas Cards/Invitations		370	133
Paper Napkins/ Towels			231
Florist			1,131
Restaurant/ Catering	4,034	8,085	2,706
Groceries			1,419
Liquors	2,793	2,615	2,531
Appliances/ Utensils			640
Rentals for Party			317
Music			180
	$6,877	**$11,245**	**$9,991**

In addition, the Group contributed about $1,000 annually to holiday parties held jointly with other departments for operating room (O.R.) personnel. In 1992, the Group contributed to O.R. parties at both the SUNY University Hospital and a nearby private, not-for-profit hospital where some Group doctors see patients.

Travel Costs

In the three years that we reviewed, the Group spent about $175,000 for travel, most of it for five doctors. Travel spending in 1990 was $70,000. It dropped in 1991 to $34,000 but increased again in 1992 to nearly $71,000. One Group official's trips accounted for 41 percent of the Group's total travel expenditures for 1991 and 1992. Our review of travel expenditures for Group 1 identified some wasteful and abusive practices. Some examples follow.

We found that extravagant accommodations were sometimes used. For example, at a medical convention in Palm Beach, Florida during 1990, one Group official stayed in the most expensive rooms available, the Presidential Suite, at a cost of $606 per day. (For two other doctors, the Group paid $257 and $163 for their rooms in the same hotel.) During a 1992 visit to

London, England, a Group official stayed at an exclusive hotel in London, at a cost of $420 per day.

We also noted that doctors in the Group were generally reimbursed for at least some of their family members' travel costs, including lodging, food and room service, and registration fees at the medical conventions. For example, in the London trip discussed above, both the doctor's wife and an adult son shared the suite of rooms at the hotel, the total cost of which was paid by the Group. We estimated that the total cost to the Group for the travel costs of the doctors' family members for the three years examined was more than $4,800.

On some occasions, first class air travel was used by one Group official. The extra costs of flying first class can be appreciable. For example, on a flight to Hawaii by this official, the first class fare was $2,747 more than the coach fare.

We also noted two occasions where the same doctor discussed above requested and received reimbursement for the cost of first class airfare, when he actually used business or coach class. In 1992, the doctor received payment for first class airfare on a roundtrip flight to Santiago, Chile. However, we have determined that he actually flew business-class at a cost of $1,734 less than he received reimbursement for. In 1990, the doctor was provided a first-class round-trip ticket from Syracuse to Long Island, valued at $351. He was also reimbursed for a coach class ticket for the same flight valued at $157.50 that he used. We could not determine whether the first-class ticket was used, exchanged for another ticket or surrendered for cash. This transaction causes the Plan to be short $351, the value of the unaccounted for first-class ticket.

The Group also reimbursed this doctor for first-class airfare to London, England, and Cairo, Egypt, at a cost of $6,061. The documentation submitted by the doctor to the Group's business office to support this claim for reimbursement was a copy of the printed itinerary from a local travel agency. However, when we checked with the travel agency, we learned that the travel agency had not sold a ticket to the doctor for this trip. The itinerary was only an estimate of the airfare, not a receipt for payment.

We then requested the doctor to provide documentation that would confirm his use of first class airfare on this trip. However, to date, he has not responded to our request. Considering the questionable expenditures identified on other trips, we believe that HSC officials should follow up to determine the actual costs incurred. (The difference between first class and business class could be $2,000 or more.)

We found that the Group reimbursed many other personal expenses incurred by the doctors during their travels besides the travel expenses of family

members. These included thousands of dollars in purchases from hotel boutiques, and for sightseeing tours, golf and tennis fees, and a variety of other miscellaneous expenses. Approximately 95 percent of these expenses were incurred by one Group official, while the remainder are mostly attributable to two other doctors in the Group. These travel-related personal expenses totaled $8,574.

We also identified what appeared to be lavish entertaining during these travels. While traveling to medical conventions, a doctor in the Group hosted, at Group expense, three banquets at a cost of nearly $3,900. We also noted two other occasions involving Group doctors who spent Group funds on dinners costing approximately $750 each. The Group's travel records do not contain justification for these entertainment expenses as being valid business expenses.

A Group official's trip to London and Cairo during late 1992 further illustrates the lack of control over travel spending. In total, the Group spent more than $14,000 for this trip even though only about $6,500 was supported as business-related. In addition, there is documentation in the Group's files indicating there may have been no need for the London part of the trip. We found a letter written by the doctor to a colleague in London asking, "If it were possible for me to give a lecture, it would help me to justify that stopover and also to visit with you."

The HSC has published detailed guidelines on the use of State University or Research Foundation funds for travel. These contain restrictions on overseas travel, on the use of first class air travel, and on the amount that employees may be reimbursed for meals and lodging. Specific procedures are outlined for employees to obtain reimbursement of travel costs, including the requirement (with few exceptions) to present full documentation of expenses incurred. However, the expenditure of Plan funds for travel is not governed by these guidelines. The lack of guidelines is a major cause for the questionable travel spending practices noted for this Group.

Purchase of Gifts

IRS guidelines allow businesses to deduct a maximum of $25 in business gifts in a year to any one individual. We found that the majority of gift giving in Group 1 either exceeded the limits established by the IRS or did not demonstrate a bona fide business purpose.

Christmas Gifts

The majority of gift giving occurred during the Christmas season, involving thousands of dollars in fruit baskets, candy, employee bonuses, and other gifts. During the three years, Christmas gift giving totaled $21,400.

For example, during 1991, the Group purchased 37 gift fruit baskets at a total cost of $1,398 (or more than $37 apiece). Some of these fruit baskets

were given to non-Group physicians within the greater Syracuse region. In addition, two recipients were physicians residing in Massachusetts, well outside of the Group's practice area. Additional recipients were not physicians but were apparently friends or acquaintances of a Group official. For example, baskets were delivered to three car dealerships, an accounting firm not associated with the Group, and to a veterinarian. Fruit baskets were also purchased during 1990 and 1992.

Also during 1991, nine laser pointers were purchased for Christmas presents at a cost of nearly $2,100. Another $1,000 in coins (ten $100 coin sets) were purchased as gifts. The Group also purchased $1,300 in candy that year for Group staff and other HSC staff. Similar gifts of candy were purchased by the Group in 1990 and 1992.

During the three years, employees (and also paid accountants performing work for the Group) received Christmas bonuses totaling $11,800.

Miscellaneous Gifts

Nearly $5,800 in Steuben crystal sculptures were purchased as gifts during the three years we audited. Some of these sculptures cost between $700 and $1,000 apiece. One recipient was a doctor retiring from the Group. Another was a physician in Massachusetts (who had also received holiday gift baskets and had been entertained during a Group official's travels to medical conventions). Other sculptures and crystal were purchased as gifts to people who hosted the Group official and his wife during their overseas travels. There was also $1,700 in Steuben crystal shipped directly to the Group official's residence, for which there were no intended recipients listed in the Group's records. Whether these were given as gifts or retained by the Group official is unknown.

In addition, we found the Group paid for other miscellaneous gifts, including:

- A retirement gift for $1,000.

- A $600 check written to cash, which was provided to one Group official's wife, purportedly to purchase a wedding gift. For whom the gift was intended is not documented in the Group's records.

Personal Loans

We noted that two doctors in the Group took out personal loans from Group funds during 1991 and repaid them in full with no interest during the same year. One doctor borrowed $50,000 in September 1991 and repaid that amount in full without interest in December 1991. Another doctor borrowed $20,000 from the Group during March 1991 and repaid the amount in December without interest.

The use of Group funds for personal loans is not authorized by the Policies of the SUNY Board of Trustees.

Related Party Transactions

We identified a number of instances where the Group did business with family members of the doctors in the Group. We identified $14,301 in these related party transactions, including $9,128 to members of one doctor's family. Such transactions do not represent good business practice because the parties to the transaction do not have an arms-length relationship.

The son of one of the doctors received over $7,800 for architectural and interior design work for the Group's offices in the University Hospital. As part of the amount, the Group paid $861 for three round-trip airline tickets from Philadelphia where the son resides.

The Group also paid $800 to one of this doctor's daughters to clean his own office for five months during 1990. Later, the Group also purchased $479 worth of toys from the same daughter. These toys were given as gifts at the Group's Christmas party.

The wife of another physician in the Group received nearly $5,200 in computer consulting work.

Purchases that Appear to Have Yielded a Personal Gain

Many purchases of goods and services appear to have resulted in a personal gain to the doctors in the Group, primarily to one Group official. We estimate that this official may have personally benefited from the expenditure of Group funds totaling about $33,000 or more during our three year audit period. We have identified these transactions to HSC officials who should review these transactions and seek restitution from the doctor, where appropriate. Some examples follow. Those items previously discussed in this report are indicated by an asterisk.

House cleaning (including window washing and rug cleaning) and landscaping at the Group official's residence and summer home.	*$8,237
Birthday gifts for the official for his party in 1990.	*$1,509
Steuben crystal (i) to recipients who hosted the official and his wife during their travels; or (ii) delivered to his residence.	*$4,742
Tickets to the Syracuse Symphony (two seats for a season and for a concert series).	$ 642
Framing of 10 pictures in 1990 and 10 papyri purchased on the official's trip to Cairo, Egypt in 1992.	$2,121
Louis Vuitton suitcase purchased by the official's wife.	$ 684
Estimated costs of the official's family members' travel costs paid for by the Group.	*$2,811
Personal goods and services purchased while travelling, including sightseeing tours, golf and tennis fees, and hotel shop purchases.	*$8,156
Kitchen utensils and appliances of enduring value, purchased in connection with Christmas parties and office picnics.	*$ 858
Difference between business and first class airfare from Syracuse to Chile.	*$1,734
Other miscellaneous expenditures	$1,502

We also identified about $6,100 in expenditures for other doctors in the Group which appear to have resulted in a personal gain to them. For example, one transaction involved the payment of $3,150 to the Group's accounting firm for preparing individual tax returns for five of the Group's doctors. This expense should have been billed to the individual doctors and should not have been paid by the Group. We have also identified these transactions to HSC officials, who should review them and seek restitution, where appropriate.

Spending Practices at Other Groups

We reviewed expenditures in six other Groups besides Group 1. During 1991 these six Groups consisted of 140 faculty members and generated clinical practice revenues totaling over $27 million as follows:

Group	Clinical Practice Income (millions)	Number of Faculty Members
2	$ 2.9	7
3	5.8	13
4	4.3	31
5	5.4	54
6	5.3	19
7	3.6	16
	$27.3	140

We found questionable spending practices that in some cases were similar to those we identified for Group 1. However, unlike in Group 1, we did not identify patterns of expenditures that appeared to result in personal gain to individuals. The following is a discussion of our findings, which involve expenses relating to entertainment, gifts, charitable contributions and employee benefits.

Entertainment Costs

We found that the medical service groups are expending tens of thousands of dollars for a variety of social events, such as banquets, dinner/dances, picnics, and pizza parties. We acknowledge that there are occasions where an appropriate business purpose is served by entertainment. However, with respect to entertainment expenditures in Groups 2, 3, 4, 5 and 6, we question the extent of entertaining and whether the expenditures serve an appropriate and cost-effective use of Plan funds.

The following summarizes our findings in the five groups whose entertainment expenses we reviewed.

Group 2

Overall, entertainment expenses for Group 2 were approximately $19,000 in 1991 and $20,400 in 1992. These paid for a wide variety of events, including the following examples:

- Large dinners hosted by doctors in the Group while on travel status. In 1991, the Chairman of the department hosted a banquet while attending a medical convention in New Orleans at a cost of $1,428. Also in New Orleans, an alumni reception was held at a cost of $536. In 1992, an alumni reception was held in San Francisco at a cost of $2,432.

• Residents' Dinner/Dance. Dinner/dances were held for the Group's residents in both 1991 and 1992 at respective costs of $3,451 and $5,401.

• Retirement Party. A reception and dinner were held for a doctor retiring from the practice in October 1992 at a cost of $4,328.

• Christmas Festivities. Group 2 hosted a Christmas party for its employees and contributed to two other parties arranged for O.R. personnel of the University Hospital and a private, not-for-profit hospital in the Syracuse area. Costs of the parties are listed in the following table:

	1991	1992
Department Christmas Party	$3,839	$1,213
Univ. Hosp. Operating Room Party	1,500	1,500
Private Hosp. Operating Room Party	240	300
Other (Nurses Parties)	1,032	0
	$6,611	**$3,013**

Group 3

Food and entertainment expenses for Group 3 amounted to approximately $12,700 in 1991 and included the following examples:

• An alumni reception catered by the Disneyland Hotel in California. This event took place in 1991 at a cost of $2,697.

• Christmas festivities. The Group contributed $2,000 toward a Christmas party for operating room personnel of the University Hospital in 1991.

• Coffee supplies. In 1991, the Group spent $4,065 on coffee supplies.

Group 4

This group expended $9,433 in 1991 and $11,377 in 1992 on entertainment expenses for a variety of functions and meetings as follows:

• Midwinter Dinner/Dance. These events were held in both 1991 and 1992 at respective net costs of $1,597 and $2,207. In 1991, $840 was collected from attendees to partially offset costs of the event.

• Reception for Retiring Doctor. In 1991, the Group held a reception for the department chairman who was retiring. The cost of this reception ($1,018) was partially offset by contributions ($160) by some attendees, yielding a net cost for the event of $858.

• Residents' Dinner. This event was held in both 1991 and 1992 at a cost of $3,420 and $3,780 respectively. In addition, a reception was held for incoming residents in 1992 at a cost of $748.

• Weekly Pizza Parties. Beginning in July 1992, weekly TGIF pizza parties were held for residents in the Group. During the last six months of 1992, a total of $1,068 was spent on pizza for these events.

• Other Events. In 1992, the department purchased tickets to sporting and cultural events at a cost of $723.

Group 5

We identified entertainment expenses of $33,232 for 1990 and $29,741 for 1991. The following table lists some of the functions paid for and their cost.

	1990	1991
Monthly Pizza & Beer Parties	$ 2,210	$ 1,664
Recognition Dinner	8,647	7,507
Department Christmas Party	19,041	16,911

Group 6

We identified $9,345 in entertainment expenses in 1990 and $3,000 in 1991 as follows:

	1990	1991
Party for Departing Residents	$3,641	
Reception for Incoming Residents	1,604	
Department Christmas Party	1,600	
Univ. Hosp Operating Room Christmas Party	2,500	$ 3,000

HSC officials indicated that entertainment expenses, such as Christmas parties to enhance employee morale, and refreshments provided to residents in conjunction with educational lectures, seem reasonable to them. However, in recognition of the concerns brought forth in this report, HSC officials stated they have developed guidelines to address the use of Plan funds for entertainment purposes. They indicated that this issue will also be addressed in SUNY system-wide guidelines that are currently under development. We acknowledge that there are circumstances when such expenses may be reasonable, but also believe that appropriate limits should be established. The guidelines being developed should include such limitations.

Purchase of Gifts

IRS guidelines allow businesses to deduct a maximum of $25 in business gifts made to any one individual during a year. Although inappropriate gift giving was not on the scale of what we had found in Group 1, we did find several occurrences where gift giving exceeded IRS criteria. For example, we noted four gifts that were made to retiring employees, as follows:

Year	Group	Amount	Recipient
1992	2	$ 689.08	Physician
1992	2	250.00	Nurse
1992	2	250.00	Nurse
1991	3	2,000.00	Nurse

We also identified that Group 3 had spent nearly $2,000 in 1991 for 15 desk sets with engraved medallions at a cost of $131 apiece as gifts to its residents. In Group 4, there was a $100 gift to the Group's Chief Resident, which exceeded the $25 limit.

We also found that three groups gave cash gifts to their employees (at Christmas season) during 1991 and 1992 totaling almost $16,000.

Charitable Contributions

For the four medical service groups that we reviewed (Groups 2,3,4 and 7), we determined that about $140,000 was contributed in total to outside not-for-profit groups.

The outside group receiving the largest amount of charitable contributions was a private not-for-profit hospital in the Syracuse area. This hospital received $116,000 from the four groups during the three years we reviewed. Although not-for-profit groups represent worthwhile causes, we question whether Group funds which would otherwise be available for the general benefit of the College of Medicine should be donated to other organizations.

In response to our draft report, HSC officials stated that they feel the long-term benefits of the contributions, ranging from increased referrals to the improvement of medicine in the Syracuse area, outweigh the costs. However, they indicated that they have developed guidelines to better monitor all contributions.

Employee Benefits

Persons working for the 22 medical service groups are officially employees of the State University or of the SUNY Research Foundation. We found that Group funds are being used to inappropriately increase the salaries of some of these employees through various bonuses, benefits and pay raises. In all, we found that an additional $86,400 was expended by five of the Groups during 1991. For 1992, we reviewed three of the groups and found that $47,300 was expended for inappropriate employee benefits.

Compensation levels for State University employees are negotiated by the Governor's Office of Employee Relations and the applicable unions. The pay raises, bonuses, and benefits instituted by some of the groups circumvented these negotiated pay rates and represent compensation that other State University and Research Foundation employees, even at the HSC, are not entitled to have.

The extra forms of compensation provided by the groups to some of their employees include the following: salary supplements (i.e., pay raises), paid parking and tuition.

Salary Supplements

In both Group 4 and Group 2, various employees received pay raises to boost their compensation levels above standard State University and Research Foundation levels. For example, one person at Group 4, a Research Foundation employee, received an extra $8,857 during 1991 and approximately $9,300 in 1992 beyond her regular salary.

Group 2 paid $31,765 in salary supplements to 17 employees in 1991 and an additional $26,000 to five employees in 1992. In 1991, these payments were described on the books as Christmas bonuses and in 1992 as "consultant's fees." However, the payments were not made to outside consultants but to employees of the Group. Nor were the payments made for extra work performed by the employees (i.e., extra service payments) but only as a means of increasing the pay rates of the benefited employees above authorized levels.

Paid Parking

We found that five groups paid at least $72,000 for employee parking (the total paid parking may be more because we did not review all three years for each Group).

By paying for their employees' parking, the five groups are granting an unauthorized benefit to their employees at an average cost of approximately $8,000 per group per year based on the costs we reviewed. It should be noted that this same benefit is not available to non-Group employees at the HSC's hospital.

Tuition

In our review we determined that Group 4 paid tuition for three of its employees during 1991 at a cost of $3,062. It should be noted that the HSC has a program for paying part of the tuition of its employees. It is inappropriate for the groups to establish employee tuition assistance programs on their own.

Recommendations

1. HSC, in conjunction with SUNY Central Administration, should formulate detailed guidelines covering the use of clinical practice plan funds. At a minimum, the guidelines should place appropriate limits/restrictions on entertainment and travel, as well as prohibit the use of funds for charitable contributions and gifts, employee benefits, personal loans and related party transactions.

2. The Plan's Governing Board should develop expenditure controls to ensure compliance with promulgated guidelines. For example, the Governing Board should provide for separation of expenditure processing duties where feasible and expand the independent review of transactions by HSC's internal auditor.

3. HSC officials should obtain restitution from appropriate individuals for those expenditures determined to have provided personal gain.

4. HSC officials should investigate the questionable travel expenditures and, where appropriate, obtain restitution from the individuals involved.

5. SUNY Central Administration should ensure that similar guidelines and controls are developed at the other SUNY locations that have clinical practice plans.

Major Contributors to This Report

Jerry Barber
Marvin Loewy
Karen Bogucki
John Cooke
David Avery
Michael Filippone
William Warner
Michael Wrobel
Paul Bachman

State University of New York
State University Plaza
Albany, New York 12246

Office of the Vice Chancellor
for Finance and Business

June 24, 1994

Mr. Robert H. Attmore
Deputy Comptroller
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Mr. Attmore:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of the State University of New York Health Science Center at Syracuse and SUNY Central Administration regarding the draft audit report on Clinical Practice Management Plan, State University of New York Health Science Center at Syracuse (93-S-54).

Sincerely,

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

OFFICE OF THE STATE COMPTROLLER
ROBERT H. ATTMORE
DEPUTY COMPTROLLER

JUN 28 1994

MGMT. AUDIT &
FINANCIAL REPORTING

Appendix B

Health Science Center at Syracuse Comments

Audit Observations and Conclusions:

Spending Practices in Group 1:

The Campus recognizes that the Groups should expend funds in an efficient, business-like manner. We in no way support expenditures which exceed the bounds of Internal Revenue Service Guidelines or result in personal gain. The Health Science Center will employ all efforts to obtain restitution for those expenditures which result in personal gain or are otherwise determined to be inappropriate.

In recognition of the concerns brought forth in the Comptroller's Report, Health Science Center officials, in conjunction with the Governing Board, have developed and issued "Guidelines for Medical Service Group Expenditures."

Spending Practices With Other Groups:

All revenues generated by the Groups come from the physicians practice of medicine, and these are assessed a five percent (5%) tax, which goes toward the benefit of the State University of New York Health Science Center at Syracuse School of Medicine. The six (6) groups cited on Page 13 produced $27.3 million of non-State revenues, and $1.36 million of this was utilized for the benefit of the School of Medicine. Since the Board of Trustees Policies limit the amount of compensation that the physicians may keep, residual monies generated by clinical practice also benefit the School of Medicine.

The residual funds are expended for research and for the education of residents, which the State would otherwise have to pay. For example, Groups 2 through 7 expended $2.97 million in research in 1992. In another example, one of the Group's cited, which receives $9,000 in State support for non-salary items, provides $50,000 in supplies for academic purposes. It also supplies approximately 5.5 full-time equivalent employees for the education of residents and medical students, and finally, all of the furniture and equipment on its academic floor has been provided for by the Medical Service Group. Overall, we believe this lends a sense of perspective to the findings on Group's 2 through 7.

Entertainment Costs:

When considering entertainment expenses, such as annual Christmas parties, the Center looks to the reasonableness of expenditures. The Groups cited employ 818 local individuals. Hosting these individuals and others with a business interest to a Christmas party will result in what might appear to be an unreasonable expense, but the per capita cost is small, and the benefit in terms of enhanced

morale outweighs the cost. The Health Science Center has developed guidelines to specifically address this issue, and the use of practice plan funds for entertainment purposes will also be addressed in system-wide guidelines currently under development.

Entertainment costs may also occur during a meeting with a business purpose. For example, refreshments are provided in conjunction with educational lectures to residents. Also, Alumni events can and do result in long-term gain for the Medical School. As regards for expenditures for coffee, a significant portion of these expenditures provide coffee to the Hospital Operating Room. These expenditures appear reasonable to the Campus.

Charitable Contributions:

The Health Science Center recognizes that the long-term benefits of contributions to related medical institutions far outweigh the costs. The long-term benefits range from increased referrals to the improvement of medicine in the area. In order to better monitor all contributions, the Health Science Center has developed guidelines to specifically address this issue, and the use of practice plan funds for charitable contributions will also be addressed in system-wide guidelines currently under development.

Employee Benefits:

The Health Science Center at Syracuse is addressing employee benefit issues referenced in the report.

Recommendations

1. Agree. The Health Science Center has developed guidelines (Guidelines for Medical Service Group Expenditures) which provide reasonable restrictions upon the expenditure activities of the Groups.

2. Agree. Expenditure controls are incorporated in the newly approved Guidelines. The independent public accountant has expanded annual audit coverage to include these Guidelines. The Health Science Center Internal Audit Department assists the external auditor in the expanded audit coverage.

3. Agree. The Health Science Center will pursue all avenues to obtain restitution from appropriate individuals for those expenditures determined to have provided personal gain.

4. The Health Science Center will investigate questionable travel expenditures and, where appropriate, obtain restitution from the individuals involved.

State University of New York Comments

5. The Interim Chancellor has directed the development of a system-wide process for proper oversight, reporting and accountability of all practice plans. The process will include: participation by campus leadership and appropriate system administration, development of system-wide guidelines and appropriate expenditure controls, and a mechanism for ongoing system review and Board of Trustee oversight, in order to ensure proper compliance with Article XVI of the Policies of the Board of Trustees. SUNY System Administration will also follow-up with the Health Science Center to resolve any inconsistencies between system guidelines and the Center's guidelines.